

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA

FOR THE YEAR ENDED DECEMBER 31, 2008

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

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**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

For the Year Ended December 31, 2008



**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

TABLE OF CONTENTS

	Reference	Page
Introductory Section		
Organization Schedule		1
Financial Section		
Independent Auditor's Report		2
Basic Financial Statements		
Statement of Net Assets	Exhibit 1	4
Statement of Revenues, Expenses, and Changes in Fund Net Assets	Exhibit 2	6
Statement of Cash Flows	Exhibit 3	7
Notes to the Financial Statements		9
Management and Compliance Section		
Schedule of Findings and Questioned Costs	Schedule 1	16
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>		19
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133		22
Schedule of Expenditures of Federal Awards	Schedule 2	25

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**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

**ORGANIZATION SCHEDULE
2008**

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>
Commissioners		
Dean Salmon	President	December 2008
Ted Haugen	Vice President	December 2009
Jon Hoyme	Secretary	December 2010
Tom Gervais	Member	December 2009
Larry Lanoue	Member	December 2011
Advisory Commissioners		
Dave Marks	Member	December 2008
Tim Alcorn	Member	December 2010
Lars Johansson	Member	December 2009
Jon Harback	Member	December 2009

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA

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INDEPENDENT AUDITOR'S REPORT

Board Members
Shetek Area Water and Sewer Commission

We have audited the accompanying basic financial statements of the Shetek Area Water and Sewer Commission as of and for the year ended December 31, 2008, as listed in the table of contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular-A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Shetek Area Water and Sewer Commission as of December 31, 2008, and the changes in its financial position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Shetek Area Water and Sewer Commission has not presented a Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 5, 2010, on our consideration of the Shetek Area Water and Sewer Commission's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

March 5, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

FINANCIAL STATEMENTS

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**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

EXHIBIT 1

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

Assets

Current assets

Cash and pooled investments	\$ 1,042,620
Special assessments	
Current	378,723
Prior	12,285
Noncurrent	9,928,185
Interest receivable - special assessment	28,030
Accounts receivable - net	18,945
Due from other governments	158,758
Inventory	72,005

Total current assets, unrestricted **\$ 11,639,551**

Restricted assets

Cash and pooled investments	917,002
-----------------------------	---------

Total current assets **\$ 12,556,553**

Noncurrent assets

Deferred charges	\$ 93,508
Capital assets	
Nondepreciable	351,000
Depreciable - net	15,141,295

Total noncurrent assets **\$ 15,585,803**

Total Assets **\$ 28,142,356**

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

***EXHIBIT 1
(Continued)***

**STATEMENT OF NET ASSETS
DECEMBER 31, 2008**

Liabilities/Net Assets

Current liabilities

Accounts payable	\$ 17,380
Contracts payable	13,274
Due to other governments	10,473
Accrued interest payable	109,912
Customer deposits	4,395
General obligation bonds payable - current	60,000
Revenue notes payable - current	560,132

Total current liabilities

\$ 775,566

Noncurrent liabilities

General obligation bonds payable - long-term	\$ 3,690,000
Unamortized premiums on bonds	13,534
Revenue notes payable - long-term	13,633,030

Total noncurrent liabilities

\$ 17,336,564

Total Liabilities

\$ 18,112,130

Net Assets

Restricted for debt service	\$ 917,002
Unrestricted	9,113,224

Total Net Assets

\$ 10,030,226

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

EXHIBIT 2

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Operating Revenues	
Sewer utility charges	\$ 191,276
Miscellaneous	887
	887
Total Operating Revenues	\$ 192,163
Operating Expenses	
Personal services	\$ 14,232
Professional services	364,902
Other services and charges	20,438
Supplies	27,605
Advertising	842
Insurance	1,835
Depreciation	52,721
	52,721
Total Operating Expenses	\$ 482,575
Operating Income (Loss)	\$ (290,412)
Nonoperating Revenues (Expenses)	
Interest income	\$ 76,683
Interest expense	(271,339)
Repayment of Murray County contribution	(1,399,809)
	(1,399,809)
Total Nonoperating Revenues (Expenses)	\$ (1,594,465)
Income (Loss) Before Contributions	\$ (1,884,877)
Capital contributions	2,414,053
	2,414,053
Change in net assets	\$ 529,176
Net Assets - January 1	9,501,050
	9,501,050
Net Assets - December 31	\$ 10,030,226
	10,030,226

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

EXHIBIT 3

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008
Increase (Decrease) in Cash and Cash Equivalents**

Cash Flows from Operating Activities	
Cash received from customers	\$ 195,422
Cash received from vendor	887
Cash paid to employees	(15,212)
Cash paid for supplies and professional services	<u>(525,804)</u>
Net cash provided by (used in) operating activities	<u>\$ (344,707)</u>
Cash Flows from Noncapital Financing Activities	
Intergovernmental	<u>\$ (1,399,809)</u>
Cash Flows from Capital and Related Financing Activities	
Special assessments	\$ 910,333
Proceeds from capital debt	1,046,676
Principal paid on long-term debt	(45,000)
Interest paid on bonds	(132,498)
Interest paid on revenue notes	(54,543)
Construction of capital assets	<u>(1,771,532)</u>
Net cash provided by (used in) capital and related financing activities	<u>\$ (46,564)</u>
Cash Flows from Investing Activities	
Investment earnings received	<u>\$ 76,683</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (1,714,397)
Cash and Cash Equivalents at January 1	<u>3,674,019</u>
Cash and Cash Equivalents at December 31	<u><u>\$ 1,959,622</u></u>
Cash and Cash Equivalents - Exhibit 1	
Cash and pooled investments	\$ 1,042,620
Restricted cash and pooled investments	<u>917,002</u>
Total Cash and Cash Equivalents	<u><u>\$ 1,959,622</u></u>

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

***EXHIBIT 3
(Continued)***

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2008
Increase (Decrease) in Cash and Cash Equivalents**

**Reconciliation of Operating Income (Loss) to Net Cash Provided by
(Used in) Operating Activities**

Operating income (loss)	\$ (290,412)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities	
Depreciation expense	\$ 52,721
(Increase) decrease in accounts receivable	4,649
(Increase) decrease in inventories	(72,005)
Increase (decrease) in accounts payable	(38,928)
Increase (decrease) in salaries payable	(732)
Total adjustments	\$ (54,295)
Net Cash Provided by (Used in) Operating Activities	\$ (344,707)

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**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

**NOTES TO THE FINANCIAL STATEMENTS
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2008**

1. Summary of Significant Accounting Policies

The accounting policies of the Shetek Area Water and Sewer Commission conform to generally accepted accounting principles.

A. Financial Reporting Entity

The Shetek Area Water and Sewer Commission was formed May 8, 2001, pursuant to Minn. Stat. §§ 115.18 to 115.37. The Commission was created for the purpose of promoting the public health and welfare by providing an adequate and efficient means of collecting, conveying, pumping, treating, and disposing of domestic sewage and industrial waste within the Shetek Area. The Commission is governed by a five-member Board appointed by the Murray County Board of Commissioners. Each member of the Board must be a voter residing in the area.

The Shetek Area Water and Sewer Commission has no component units for which it is financially accountable.

B. Basis of Presentation

The accounts of the Shetek Area Water and Sewer Commission are presented as an enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises--where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The Commission's statement of revenues, expenses, and changes in net assets distinguishes between operating and nonoperating revenues. Operating revenues result from exchange transactions associated with providing water and sewer services, the Commission's principal activity. Nonexchange revenues, including contributions from Murray County, are reported as nonoperating revenues.

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

C. Basis of Accounting

The Commission uses the accrual basis of accounting. Revenues are recognized when earned, and expenses are recognized when incurred. Pursuant to Governmental Accounting Standards Board Statement 20, the Commission has elected to not apply accounting standards issued after November 30, 1989, by the Financial Accounting Standards Board.

D. Assets and Liabilities

Deposits and Investments

The Commission's cash balance is combined with Murray County as part of its pooled cash and investments account. Investments are reported at fair value, based on market prices.

Cash and Cash Equivalents

The Commission has defined cash and cash equivalents to include restricted and unrestricted cash held by Murray County as part of its pooled cash and investments account. The Murray County pooled investment account is treated as a cash equivalent because the Commission can deposit or effectively withdraw cash at any time without prior notice or penalty.

Due From Other Governments

The amount reported as due from other governments at December 31, 2008, is receivable from the Minnesota Public Facilities Authority and represents draw-downs requested on the revenue notes.

Restricted Assets

Certain funds of the Commission are classified as restricted assets on the statement of net assets because the restriction is either imposed by law through constitutional provisions or enabling legislation or imposed externally by creditors, grantors, contributors, or laws or regulations of other governments. Therefore, applicable laws and regulations limit their use. When the Commission has both restricted and unrestricted assets available to finance a particular program, it is the Commission's policy to use restricted assets before unrestricted assets.

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies

D. Assets and Liabilities (Continued)

Special Assessments Receivable and Revenue

Special assessments were levied to pay debt associated with the sewer system construction and are reported as capital contributions in an amount equal to the capital asset. In Minnesota, counties act as collection agents for special assessments levied with property taxes. Tax settlements, including special assessment collections, are received four times a year--in January, June, July, and December. The special assessments levy is recognized as capital contributions in the year of the levy.

Capital Assets

Capital assets are stated at cost. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property and equipment of the Commission are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	75
Collection system	40
Machinery and equipment	15

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

1. Summary of Significant Accounting Policies (Continued)

F. Related Party Transactions

In 2008, Murray County received \$1,399,809 from the Shetek Area Water and Sewer Commission as reimbursement for eligible costs and expenses related to construction of the sewer system.

2. Detailed Notes

A. Deposits

Cash transactions are administered by the Murray County Auditor/Treasurer who is, according to Minn. Stat. §§ 118A.02 and 118A.04, authorized to deposit the County's cash and to invest in certificates of deposit in financial institutions designated by the County's Board. Minnesota statutes require that all County deposits be covered by insurance, surety bond, or collateral, a requirement which Murray County was in compliance with at December 31, 2008. As of December 31, 2008, the Commission had \$1,959,622 on deposit with Murray County.

B. Capital Assets

A summary of the changes in capital assets for the year ended December 31, 2008, follows:

	Balance January 1, 2008	Additions	Deletions	Balance December 31, 2008
Capital assets not depreciated				
Land	\$ 351,000	\$ -	\$ -	\$ 351,000
Construction in progress	12,843,099	-	12,843,099	-
Total capital assets not depreciated	\$ 13,194,099	\$ -	\$ 12,843,099	\$ 351,000
Capital assets depreciated				
Land improvements	\$ 1,718,495	\$ -	\$ -	\$ 1,718,495
Machinery and equipment	-	491,400	-	491,400
Infrastructure	-	12,997,486	-	12,997,486
Total capital depreciated	\$ 1,718,495	\$ 13,488,886	\$ -	\$ 15,207,381

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

2. Detailed Notes

B. Capital Assets (Continued)

	Balance January 1, 2008	Additions	Deletions	Balance December 31, 2008
Less: accumulated depreciation for				
Land improvements	\$ 13,365	\$ 22,913	\$ -	\$ 36,278
Machinery and equipment	-	2,730	-	2,730
Infrastructure	-	27,078	-	27,078
Total accumulated depreciation	<u>\$ 13,365</u>	<u>\$ 52,721</u>	<u>\$ -</u>	<u>\$ 66,086</u>
Total capital assets depreciated, net	<u>\$ 1,705,130</u>	<u>\$ 13,436,165</u>	<u>\$ -</u>	<u>\$ 15,141,295</u>
Total Capital Assets, Net	<u><u>\$ 14,899,229</u></u>	<u><u>\$ 13,436,165</u></u>	<u><u>\$ 12,843,099</u></u>	<u><u>\$ 15,492,295</u></u>

C. Long-Term Obligations

Bonds Payable

Type of Indebtedness	Final Maturity	Installment Amounts	Average Interest Rate (%)	Original Issue Amount	Outstanding Balance December 31, 2008
General obligation bonds					
2007 Water Revenue Bonds	2027	\$45,000 - \$130,000	4.00 - 4.40	\$ 1,715,000	\$ 1,670,000
2007B Sewer Revenue Bonds	2028	\$75,000 - \$155,000	4.00 - 4.40	<u>2,080,000</u>	<u>2,080,000</u>
Total General Obligation Bonds				<u><u>\$ 3,795,000</u></u>	<u><u>\$ 3,750,000</u></u>

Minnesota Public Facilities Authority General Obligation Notes

Minnesota Public Facilities Authority General Obligation Notes issued for \$15,144,000: \$11,554,549 from the Water Pollution Control Revolving Fund and \$3,589,451 from the Wastewater Infrastructure Fund. Amounts drawn or receivable on this note as of December 31, 2008, were \$14,193,162: \$10,603,711 from the Water Pollution Control Revolving Fund and \$3,589,451 from the Wastewater Infrastructure Fund. Note payments for the Water Pollution Control Revolving Fund are due semi-annually for interest and annually for principal on February 20 and August 20, 2008 through 2026, at an interest rate of 1.01 percent. The Wastewater Infrastructure Fund Note payments do not begin until the Revolving Fund loans are repaid. The principal payments are due semi-annually beginning on February 20, 2027 through 2032, and are interest-free.

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

2. Detailed Notes

C. Long-Term Obligations

Minnesota Public Facilities Authority General Obligation Notes (Continued)

Debt service requirements at December 31, 2008, are as follows:

Year Ended December 31	Minnesota Public Facilities Authority Loans		
	Water Pollution Control Revolving Fund		Wastewater Infrastructure Fund
	Principal	Interest	Principal
2009	\$ 539,776	\$ 82,265	\$ -
2010	545,560	101,645	-
2011	551,343	96,136	-
2012	557,126	90,567	-
2013	561,946	84,940	-
2014 - 2018	2,896,477	338,397	-
2019 - 2023	3,047,808	189,098	-
2024 - 2028	1,903,675	38,581	672,000
2029 - 2033	-	-	2,917,451
Total	<u>\$ 10,603,711</u>	<u>\$ 1,021,629</u>	<u>\$ 3,589,451</u>

The General Obligation Revenue Notes will be retired with income from operations, special assessments, and unused construction funding and are exempt from the limitations on net debt imposed by Minnesota law.

Year Ended December 31	G.O. Water Revenue Bonds, Series 2007		G.O. Sewer Revenue Bonds, Series 2007B	
	Principal	Interest	Principal	Interest
2009	\$ 60,000	\$ 69,155	\$ -	\$ 85,970
2010	60,000	66,755	75,000	84,470
2011	65,000	64,255	80,000	81,370
2012	65,000	61,655	80,000	78,170
2013	70,000	58,955	85,000	74,870
2014 - 2018	390,000	249,770	480,000	319,450
2019 - 2023	485,000	158,205	575,000	213,758
2024 - 2028	475,000	43,230	705,000	79,507
Total	<u>\$ 1,670,000</u>	<u>\$ 771,980</u>	<u>\$ 2,080,000</u>	<u>\$ 1,017,565</u>

**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

2. Detailed Notes (Continued)

D. Changes in Long-Term Liabilities

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Bonds and notes payable					
Minnesota Public Facilities Authority					
General obligation notes	\$ 13,926,626	\$ 820,085	\$ 553,549	\$ 14,193,162	\$ 560,132
General obligation bonds	3,795,000	-	45,000	3,750,000	60,000
 Total Long-Term Liabilities	 <u>\$ 17,721,626</u>	 <u>\$ 820,085</u>	 <u>\$ 598,549</u>	 <u>\$ 17,943,162</u>	 <u>\$ 610,132</u>

3. Risk Management

The Shetek Area Water and Sewer Commission is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The Commission has purchased commercial insurance to insure these risks. There are no employees of the Shetek Area Water and Sewer Commission, as the Commission has hired independent contractors to operate the plant and perform its accounting functions. There were no significant reductions in insurance coverage from the previous year. There were no settlements in excess of insurance during the past three years.

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**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

Schedule 1

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2008**

I. SUMMARY OF AUDITOR'S RESULTS

- A. Our report expresses an unqualified opinion on the financial statements of the Shetek Area Water and Sewer Commission.
- B. A significant deficiency in internal control was disclosed by the audit of financial statements of the Shetek Area Water and Sewer Commission and is reported in the "Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*." The significant deficiency is a material weakness.
- C. No instances of noncompliance material to the financial statements of the Shetek Area Water and Sewer Commission were disclosed during the audit.
- D. No matters involving internal controls over compliance relating to the audit of the major federal award program is reported in the "Report on Compliance with Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133."
- E. The Auditor's Report on Compliance for the major federal award program for the Shetek Area Water and Sewer Commission expresses an unqualified opinion.
- F. No findings were disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133.
- G. The major program is:
 - Capitalization Grant for Clean Water State
Revolving Funds
 - CFDA #66.458
- H. The threshold for distinguishing between Types A and B programs was \$300,000.
- I. The Shetek Area Water and Sewer Commission was determined not to be a low-risk auditee.

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

06-1 Internal Control/Segregation of Duties

Management is responsible for establishing and maintaining internal control. This responsibility includes the internal control over the various accounting cycles, the fair presentation of the financial statements and related notes, and the accuracy and completeness of all financial records and related information. Adequate segregation of duties is a key internal control in an organization's accounting system. The size of the Shetek Area Water and Sewer Commission and its staffing limits the internal control that management can design and implement into the organization. Management should be aware that segregation of duties is not adequate from an internal control point of view.

Management is responsible for the accuracy and completeness of all financial records and related information. Also, management is responsible for controls over the period-end financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

During our audit, we proposed numerous adjustments to convert the Commission's financial records to the financial statements as reported.

We recommend the Commission be mindful that limited staffing causes inherent risks in safeguarding its assets and proper reporting of its financial activity. We recommend the Commission continue to implement oversight procedures and monitor those procedures to determine if they are still effective internal controls.

Client's Response:

The Shetek Area Water and Sewer Commission is aware that because of the limited resources available to staff the day-to-day operations of the District, it is impossible to achieve proper segregation of duties. The District will continue to implement and monitor procedures and internal controls to mitigate these risks where possible.

PREVIOUSLY REPORTED ITEM RESOLVED

Financial Reporting (Part of 06-1)

The Commission lacked internal control over preparation of financial statements in accordance with generally accepted accounting principles.

Resolution

Murray County, the primary government and fiscal agent for the Shetek Area Water and Sewer Commission, continued to obtain the training and expertise to internally prepare its annual financial statements and prepared draft copies of the financial statements of the Commission for 2008.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

None.

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STATE AUDITOR

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board Members
Shetek Area Water and Sewer Commission

We have audited the financial statements of the Shetek Area Water and Sewer Commission, a component unit of Murray County, as of and for the year ended December 31, 2008, and have issued our report thereon dated March 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Shetek Area Water and Sewer Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Commission's financial statements that is more than inconsequential will not be prevented or detected by the Commission's internal control. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 06-1 to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Shetek Area Water and Sewer Commission's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Shetek Area Water and Sewer Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the provisions of the *Minnesota Legal Compliance Audit Guide for Local Government*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65. Accordingly, the audit included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

The *Minnesota Legal Compliance Audit Guide for Local Government* contains five categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, and claims and disbursements. Our study included all of the listed categories.

The results of our tests indicate that, for the items tested, the Shetek Area Water and Sewer Commission complied with the material terms and conditions of applicable legal provisions.

The Commission's written response to the material weakness identified in our audit has been included in the Schedule of Findings and Questioned Costs. We did not audit the Commission's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board members, management, others within the Shetek Area Water and Sewer Commission, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

/s/Greg Hierlinger

REBECCA OTTO
STATE AUDITOR

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

March 5, 2010

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REBECCA OTTO
STATE AUDITOR

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board Members
Shetek Area Water and Sewer Commission

Compliance

We have audited the compliance of the Shetek Area Water and Sewer Commission with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended December 31, 2008. The Shetek Area Water and Sewer Commission's major federal program is identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Commission's management. Our responsibility is to express an opinion on the Commission's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Shetek Area Water and Sewer Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Commission's compliance with those requirements.

In our opinion, the Shetek Area Water and Sewer Commission complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended December 31, 2008.

Internal Control Over Compliance

The management of the Shetek Area Water and Sewer Commission is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Commission's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A control deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Commission's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the Commission's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the Shetek Area Water and Sewer Commission's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the Shetek Area Water and Sewer Commission as of and for the year ended December 31, 2008, and have issued our report thereon dated March 5, 2010. Our audit was performed for the purpose of forming an opinion on the financial statements of the Shetek Area Water and Sewer Commission. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by

OMB Circular A-133 and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

This report is intended solely for the information and use of the Board members of the Shetek Area Water and Sewer Commission, management, others within the Commission, and federal awarding agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than those specified parties.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

March 5, 2010

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

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**SHETEK AREA WATER AND SEWER COMMISSION
SLAYTON, MINNESOTA**

Schedule 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2008**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Pass-Through Grant Number	Expenditures
U.S. Environmental Protection Agency			
Passed Through Minnesota Department of Employment and Economic Development			
Capitalization Grant for Clean Water State Revolving Funds	66.458	MPFA-04-0009-R-FY07	<u><u>\$ 849,208</u></u>

Notes to the Schedule of Expenditures of Federal Awards

1. The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the Shetek Area Water and Sewer Commission. The Commission's reporting entity is defined in Note 1 to the financial statements.
2. The expenditures on the Schedule of Expenditures of Federal Awards are on the accrual basis of accounting used by the Commission.
3. During 2008, the Commission did not pass any federal money to subrecipients.